

Message Text

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ACTION EUR-12

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DEPARTMENT PASS EXIMBANK

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SUBJECT: GOP INCREASES TAXES

REF: (A) LISBON 4495; (B) LISBON A-171 OF JULY 2, 1976

1. OUTGOING SIXTH PROVISIONAL GOVT ON JULY 13 FORMALLY APPROVED TAX INCREASES REPORTED REFTEL (A). THEY WERE PROMULGATED AS DECREE-LAW 667/76 PUBLISHED IN AUGUST 5 DIARIO DE REPUBLICA. PRACTICALLY ALL DIRECT TAXES WERE INCREASED, INCLUDING:

-- PROFESSIONAL TAX: THIS INCREASE, EFFECTIVE JAN 1, 1977,

IS THE SECOND SINCE APRIL, 1974. ALTHOUGH

THE RATE WAS RAISED ONLY 1-2 PERCENTAGE POINTS

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FOR EACH INCOME BRACKET (TO A MAXIMUM OF 22 PERCENT),

ELIMINATION OF INTERMEDIARY BRACKETS MEANS A HEFTY INCREASE FOR SOME TAXPAYERS. ARTICLE IN AUGUST 11 "O DIA" CRITICIZED THIS TAX INCREASE AS REGRESSIVE, NOTING THAT THOSE EARNING 100,000-125,000 OR 200,000-250,000 ESCUDOS (\$3,215-4,019 OR \$6,430-8,038) A YEAR SUFFERED A 33.3 PERCENT INCREASE WHILE THOSE EARNING BETWEEN 850,000 AND 900,000 ESCUDOS (\$27,331-28,938) A YEAR BORE AN ADDED BURDEN OF ONLY 5.2 PERCENT.

-- INDUSTRIAL CONTRIBUTION TAX (LEVIED ON INDIVIDUAL OR CORPORATE INCOME FROM BUSINESS OPERATIONS): NEW, MORE PROGRESSIVE, RATE OF UP TO 20 PERCENT FOR INCOME OVER 5,000,000 ESCUDOS (\$161,000) GO INTO EFFECT AUGUST 20. FORMER RATES RANGED FROM 15-18 PERCENT.

-- COMPLEMENTARY (GENERAL INCOME) TAX INCREASE IS RETROACTIVE TO INCLUDE 1975 INCOME. INTERMEDIARY TAX BRACKETS WERE ELIMINATED. FOR COMPANIES, THE RATES INCREASED FROM 6-12 PERCENT, FROM THE FORMER RATES OF 4-8 PERCENT. FOR INDIVIDUALS, THE RATES HAVE BEEN INCREASED AS MUCH AS 20 PERCENT IN THE HIGHEST CATEGORIES. ELIGIBILITY FOR MAXIMUM 80 PERCENT RATE HAS BEEN LOWERED FROM 1.25 MILLION TO 1 MILLION ESCUDOS (\$40,200 TO 32,150).

-- STAMP TAX (FOR USE OF GOVERNMENT SEAL: 50 PERCENT INCREASE EFFECTIVE AUGUST 20, 1976.

-- CAPITAL INCOME TAX RAISED FROM 18 PERCENT TO 22 PERCENT; TAX ON INTEREST INCOME INCREASED BY 50 PERCENT -FROM 10 PERCENT TO 15 PERCENT.

2. IN ADDITION, GOP IMPOSED 10 PERCENT SURTAX ON CURRENT RATES FOR PRACTICALLY ALL DIRECT TAXES (INDUSTRIAL, PROFESSIONAL, COMPLEMENTARY, PROPERTY, CAPITAL INCOME, CAPITAL GAINS, AND INHERITANCE), EFFECTIVE AUGUST 20, 1976. STIFFER PENALTIES, INCLUDING PRISON TERMS FOR TAX EVASION AND FINANCIAL CRIMES, WILL GO INTO EFFECT OCTOBER 1, 1976.

3. COMMENT: TAX INCREASES WERE ATTRIBUTED TO INCREASED PUBLIC EXPENDITURES AND WORSENING PORTUGUESE FINANCIAL SITUATION. THE MEASURES ARE INTENDED TO INCREASE GOVERNMENT RECEIPTS FROM 58.29 BILLION ESCUDOS (1.9 UNCLASSIFIED

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BILLION) IN 1975 TO 75.11 BILLION ESCUDOS (\$2.4 BILLION) IN 1976 (SEE REFTEL B). WITH ADDITIONAL TAX REVENUE, GOP HOPES TO REDUCE PROJECTED BUDGET DEFICIT TO 35 BILLION ESCUDOS (US\$1.1 BILLION) BY GENERATING AN ADDITIONAL 6.3 BILLION ESCUDOS (US\$200.9 MILLION) IN TAX RECEIPTS. HOWEVER, TAX EVASION IS STILL COMMON. EFFECTIVE ENFORCEMENT OF TAX MEASURES WILL, THEREFORE, BE EXTREMELY DIFFICULT.

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